

Message Text

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12

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /093 W

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R 291440Z APR 76

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 8055

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

UNCLAS THE HAGUE 2355

E.O. 11652: N/A

TAGS: EFIN, NL

SUBJECT: ZIJLSTRA WARNS AGAINST ABUSE OF FLOATING EXCHANGE RATES

1. NETHERLANDS CENTRAL BANK PRESIDEN ZIJLSTRA IS UNEASY ABOUT FLOATING EXCHANGE RATES. IN BANK'S ANNUAL REPORT ISSUED APRIL 27, HE SAYS THAT THERE IS PERCEPTIBLE USE OF COMPETITIVE POLICIES IN EXCHANGE MARKETS AND GROWING FEAR THAT TRADE RESTRICTIONS WILL BE APPLIED. HE DOES NOT GIVE MUCH CREDENCE TO THE ARGUMENT THAT FLOATING RATES INCREASE GOVERNMENTS' FREEDOM TO PURSUE THEIR OWN DOMESTIC POLICIES, POINTING OUT THAT BEFORE THE DECLINE IN VALUE OF A CURRENCY SHOWS ANY BENEFITS, IMPORTS BECOME MORE EXPENSIVE, PRICES RISE, AND CURRENCY COMES UNDER NEW PRESSURE. HE SAYS THAT A RETURN TO SOUND ECONOMIC AND FINANCIAL POLICIES UNDER WHICH INFLATION IS CONTROLLED WOULD MAKE POSSIBLE A RENEWAL OF THE SYSTEM OF FIXED PARITIES, AND THAT THIS WOULD IN TURN PROVIDE IMPORTANT SUPPORT FOR SOUND ECONOMIC AND FINANCIAL POLICIES.

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2. DESPITE HIS WARNINGS, ZIJLSTRA SEES NO ALTERNATIVE NOW TO FLOATING EXCHANGE RATES FOR THE MAJOR CURRENCIES, AND REMARKS THAT THEY HAVE FUNCTIONED REASONABLY WELL. NEVERTHELESS, HE SAYS THAT "IT IS TOO EARLY TO MAKE A LASTING VIRTUE OUT OF NECESSITY." AGREEMENTS REACHED BY IMF AT KINGSTON MEETING IN JANUARY DID NOT SOLVE PROBLEMS OF CURRENCIES BUT MERELY POSTPONED SOLUTION. MOREOVER, SAYS ZIJLSTRA, THE DISTINCTION MADE AT RAMBOUILLET BETWEEN INTERVENING TO COMBAT ARBITRARY FLUCTUATIONS IN EXCHANGE RATES AND NOT INTERVENING AGAINST FUNDAMENTAL FLUCTUATIONS HAS PROVED NO SOLUTION IN PRACTICE SINCE THE DISTINCTION HAS NO REAL SIGNIFICANCE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, INFLATION, ANNUAL REPORTS, FLEXIBLE EXCHANGE RATES, TRADE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976THEHA02355
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760166-0843
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976046/aaaaaenx.tel
Line Count: 74
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 21 SEP 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 SEP 2004 by cookms>; APPROVED <16 NOV 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ZIJLSTRA WARNS AGAINST ABUSE OF FLOATING EXCHANGE RATES
TAGS: EFIN, NL, (ZIJLSTRA)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006